

Environmental Action Programme Support
Contract DHR-0039-C-00-5034-0
United States Agency for International Development

A REVIEW OF OPERATIONS AND PROCEDURES OF
THE CZECH STATE FUND FOR THE ENVIRONMENT

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THE CZECH STATE FUND FOR THE ENVIRONMENT

Prepared by:
L. Warren Townsend, Ernst & Young
Chemonics International, Inc., Prime Contractor

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ACRONYMS AND TERMS

AMSD	Automated Management Systems Department; manages the Fund's electronic data processing and information systems
Applicant	A municipality (city, town, village) or private sector organization that has applied to the Fund to supply financing for a project that will benefit the environment
CD	Control Department; independently audits project construction progress
Client	An applicant whose project has been approved by the Minister of Environment and that has entered a contract with the Fund
Council of the Fund	An advisory body to the minister consisting of members of parliament and representatives of ministries that reviews the Fund recommendations before an application reaches the minister for action
CPD	Credit Policy Department; analyzes applicant creditworthiness
Director, or executive director	The senior official at the Fund; appointed by the minister
ERD	External Relations Department; guides the support application through the approval process
Financial calendar	A disbursement schedule for grant and loan proceeds prepared by the client and approved by the Fund
FOAD	Financial Operations and Analysis Department; disburses grant and loan proceeds to clients; collects loan principal and interest
Fund Commission	A committee of Fund management members that reviews technical and credit recommendations and allocates application priority in terms of the Fund's available cash resources
LG	Legal Department; drafts the financial support contract and collateral agreement between the applicant and the Fund
Office of the Fund	The Fund's administrative headquarters in Prague
Post-application process, post-approval process	All activities that follow approval of an application by the Minister of the Environment, e.g., drafting the contract and collateral agreement; disbursing project funds; monitoring project construction; final project evaluation; loan collection

Pre-approval process	The analysis and recommendation process an application for financial support goes through preparatory for action by the Minister of Environment
Resolution	The official document that the minister signs to approve or disapprove an application for financial support
SFZP, the Fund	State Fund for the Environment of the Czech Republic
TED	Technical Economics Department; analyzes the application and underlying project for technical merit (e.g., reduction in pollutants)

EXECUTIVE SUMMARY

The Czech State Fund for the Environment (SFZP) was established in 1991 and began operations in 1992. The Fund's purpose is to provide financial support to environmental protection and improvement in the Czech Republic. Operating under the Ministry of the Environment, the SFZP awards qualifying projects with loans, grants, combinations of the two, interest subsidies, and recently, loan guarantees. The six principal project categories supported are air protection, atmospheric pollution, water pollution, waste management, nature protection, and chlorofluorocarbon reduction. Approximately 1,600 projects have benefitted so far from SFZP funding; about 400 more will be added during 1997.

The Fund receives applications for financial support from municipalities (cities, towns, villages) and private profit and nonprofit organizations. That support is used for projects that will have positive environmental impact by reducing or preventing pollution to air, water, soil, and other natural resources. The ratio of public sector to private sector applications the Fund receives is about 10 to 1. Although the Fund's activities are primarily with government applicants and clients, the application process and application analysis process have been structured to accommodate proposals from both the public and private sectors.

The Fund is a political entity, effectively a department of the Ministry of the Environment. Its director and deputy directors are appointed and may be recalled by the minister. Applications for financial support are analyzed from two perspectives, technical (benefits to the environment) and credit risk (loans and guarantees). Based on its analyses, the Fund recommends approval or disapproval by the minister. The minister is the sole decision maker in approving or rejecting an application for financial support.

The Environmental Action Programme Support project undertook a review of the Fund's activities with the aim of better understanding the application process. This review found that the Fund has considerably improved its internal operations over the past two years. For example, application and post-approval processes are now structured and have been documented so that Fund employees, ministry employees, and others can understand them. The creditworthiness of borrowing clients is analyzed systematically. Applicants and clients may now telephone the Fund to learn the status of their proposals. Fund accounting and financial analysis are available electronically. Fund, project, and application data are being brought together under a single electronic system that includes a rudimentary application tracking system. Procedures are in place to monitor the progress of project construction through its completion. Other examples of progress exist, but it is important to note that many Fund operational improvements are only a beginning and, as employees of the Fund are well aware, much work remains to be done. In some cases, systems and procedures, while satisfactory on paper, do not work well enough because of the

institutionalized systems within which the Fund and its employees work.

The application approval process. The process flow design is logical. In practice, however, insufficient staff and too little time to analyze the volume of applications being handled cause analysis, process flow, and communications problems in the credit analysis function.¹ The recommendations of the Credit Policy Department are based on externally generated written reports and financial data only and exclude client and site visits. Communications between the Credit Policy Department and the Technical Economics Department are protracted and slow. The Credit Policy Department faces such short deadlines that its recommendations often bypass two important review bodies, the Fund Commission and the Fund Council, before reaching the minister for a decision. Possible solutions are increasing the number of analysts, processing applications in parallel with the Technical Economics Department, and improving communications and coordination between the two departments. This might best be accomplished by linking the two departments into one department with parallel functioning units.

Post-approval process and activities. Problems observed in post-approval activities result primarily from insufficient staff to meet heavy workloads. Under a Control Department, however, which operates independently for the Fund director, a staff of four monitors quarterly disbursements, confirms client sources of equity, and monitors actual to budgeted figures. Functional departments dealing with technical and financial issues instruct the Control Department on what issues to monitor or audit. Once a loan has closed, however, the client's financial condition is not monitored and evaluated regularly.

Application tracking. The Fund does not have a formal system to help applicants track the location and status of their applications. Typically, applicants telephone the Fund and are assisted by staff members, but the process is inefficient and time-costly for Fund employees whose work is interrupted. The ideal solution would be an electronic tracking system that would make application information accessible to applicants by telephone. Such a solution appears feasible but is not realistic at present because of staffing size.

The Fund's message. To reduce the large number of unacceptable applications that hinder the processing of desirable applications, the Fund's criteria and decisions must be more widely disseminated to the public, its market, and government leaders.

Electronic data processing. Some elements of the electronic data processing systems function well, but the so-called umbrella system that will tie all data bases together has development problems. It may not be fully functional by the targeted start date of

¹This conclusion derives from observation rather than scientific analysis. A documented study should be made of the number of analytical staff required and the skills needed to perform satisfactory credit work on the number of applications being received in the time available for analysis.

January 1, 1997, which could adversely affect Fund production. For both operational and behavioral reasons, some operating units and individual users are not using the local area network, preferring outdated application programs to recently introduced ones.

SECTION I INTRODUCTION

The Czech State Fund for the Environment (SFZP) was established in 1991 and began operations in 1992. The Fund's purpose is to provide financial support to environmental protection and improvement in the Czech Republic. Operating under the Ministry of the Environment, the SFZP awards qualifying projects with loans, grants, combinations of the two, interest subsidies, and recently, loan guarantees. The six principal project categories supported are air protection, atmospheric pollution, water pollution, waste management, nature protection, and chlorofluorocarbon reduction. Approximately 1,600 projects have benefitted so far from SFZP funding; about 400 more will be added during 1997.

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This report describes and documents two distinct stages in the Fund's activities. The first is the step-by-step process that an application follows until approved or rejected by the Minister of Environment (Section II). The second consists of the processes involved in the post-approval period. These include establishing a contractual relationship between the Fund and the applicant (the Applicant once the contract is signed), financing the project, monitoring project construction, and evaluating the completed project (Section III).

The process analyses are supplemented by descriptions of the operating units of the Fund (Section III) and electronic data processing operations (Section IV) to complete the

understanding of pre- and post-approval activities. Finally, Section V presents findings related to the application approval process.

The purpose of the study is twofold:

- C To improve the application and post-approval processes by identifying problems and, where possible, suggesting ways to eliminate or mitigate them
- C To prepare a foundation for future assistance to the Fund by thoroughly describing the process flow involved in the approval of applications and post-approval activities

SECTION II

APPLICATION APPROVAL PROCESS

For analysis purposes, the application approval process can be divided into two distinct segments: pre-approval and post-approval. The pre-approval process can be described in linear terms, one step leading to the next. During post-approval, activities involving two or three departments may occur simultaneously.

A. Pre-Approval Process

Step 1. The Applicant

Applicants can obtain applications for financial support from the Office of the Fund in Prague; the Fund's three regional offices in Teplice, Brno, and Havjrov; district offices of the Ministry of Environment; and several municipalities. The applicant submits an application on the Fund's standard form,² Application for Support from SFZP (Annex B), to the Office of the Fund by mail or in person.

Step 2. Mail Room

The Fund's mail room receives each application, records it in the *Podatelna* (mail room) data base (see Section III) with a five-digit serial control number, then sends the application to the External Relations Department.

Step 3. External Relations Department

The External Relations Department (ERD) is the gateway through which applications enter the analysis and approval process. ERD examines each application for completeness, checks to see that appropriate documentation accompanies the application, and confirms that the proposed project is within the Fund's environmental charter.

If the application is incomplete or the proposed project does not meet the environmental objectives of the Fund, the department returns the application with instructions to complete it or bring it within the Fund's environmental specifications before resubmitting it.

²Appendix 3 to Guidelines of the Ministry of Environment.

If the application is complete in all respects, ERD enters data from the application into the applications data base (see Section III) and applies an eight-digit registration number³ that identifies the application throughout the analysis and approval process and until the project is completed. The department then notifies the applicant and the relevant Ministry of Environment district office in writing of the application's registration number and acceptance for processing. It then sends the application to the Technical Economics Department.

Step 4. Technical Economics Department

The Technical Economics Department (TED) evaluates the technical and economic merits of the proposed project with a primary focus on the protective and preventive benefits the project will bring to the environment. TED draws on engineering and other technical assistance from outside the Fund when a project requires specialized analysis.

The department obtains from the applicant any additional data and documentation necessary to complete the technical analysis. If the requested material is not received within a reasonable time, TED returns the application to the applicant. If the department analyzes the application and reaches a *negative* conclusion, it drafts a negative resolution for the minister's signature listing the reasons the project should not be approved. If the department reaches a *positive* conclusion, it drafts a positive resolution for signature by the minister listing the environmental benefits of the project and the amount of financial support. TED then sends those applications that have positive recommendations and require loans or guarantees from the Fund to the Credit Policy Department for credit analysis.

Step 5. Credit Policy Department

The Credit Policy Department (CPD) analyzes the creditworthiness of the applicant, reviews TED's recommendations regarding the amount of financial support required by the project, proposes the amount and structure of a loan that is appropriate for the project, and comments on the eligibility of any collateral offered by the applicant. The department obtains from the applicant any additional data and documentation necessary to complete the credit

³The eight-digit identification number is broken down as follows: First through fourth digits: computer-generated serial number from 0001 to 9999. Fifth and sixth digits: computer-generated year of application receipt. Seventh digit, type of *activity*: 1. water protection; 2. air protection; 3. environment, countryside, and land protection; 4. waste disposal; 5. protection of usage of environmental sources; 6. other; 7. program on air protection; 8. Chlorofluorocarbon reduction. Eighth digit, type of *action*: 1. investment (accounting terminology for construction, i.e., a capital asset is being created); 2. non-investment (all other, e.g., publishing a textbook; putting on an environmental exhibition or fair); 3. programs of research and development; 4. monitoring the environment; 5. education and information; 6. support of activities related to water flows and wet areas; 7. support of new environmental technologies.

⁴By the time financial information reaches the department it is often outdated and more recent information must be obtained.

analysis.⁴

If the department conducts a credit analysis and reaches a *positive* conclusion, it takes the following actions:

- \$ Prepares a protocol (see Appendix III), a standardized memorandum recommending credit
- \$ Indicates approval, the recommended type and amount of financial support, and collateral required
- \$ Obtains the approval of the department chief and Fund management⁵ on the protocol
- \$ Sends copies of the protocol to the Fund Commission and to TED.

If CPD's credit analysis results in a *negative* conclusion, the department sends its negative recommendation by protocol to the Fund Commission and to TED with the reasons for rejection.

Step 6. Technical Economics Department (TED)

TED incorporates the recommendations of CPD into the draft resolutions, finalizes the resolutions, and prepares a memorandum for the Fund Commission explaining the reasons for positive and negative recommendations. At this point, the draft resolution becomes the primary operating document for the approval process. The department sends the applicants' files⁶ to ERD. The department chief, a member of the Fund Commission, delivers the files to the commission.

Step 7. Fund Commission

⁴By the time financial information reaches the department it is often outdated and more recent information must be obtained.

⁵A management committee including the director and deputy directors meets regularly to approve protocols.

⁶A completed file contains the application, a summary of project characteristics, an explanation of the results of TED's and CPD's analyses, a draft of the ministerial resolution, the amount of investment and type and amount of Fund support.

⁷The membership of the commission, a committee of Fund management, currently consists of the director, two deputy directors, head of the Credit Policy Department, head of the Legal Department, head of External Relations Department, and head of the Director's Secretariat. Head of the Technical Economics Department and experts from the department may be invited if necessary.

The Fund Commission⁷ reviews proposals before they are submitted to the Council of the Fund, resolves discrepancies so recommendations can be finalized, and ensures that sufficient cash resources will be on hand to cover commitments made by the minister. The commission reviews the TED and CPD recommendations and may direct that amendments be made to draft resolutions. The commission:

- \$ Prioritizes approved projects it considers most beneficial to the environment in terms of cash resources that will be available to the Fund
- \$ Returns the files to TED, or to CPD if a resolution is to be amended because of a credit consideration

Step 8. Credit Policy Department

The CPD amends draft resolutions as instructed by the commission, sends amended positive resolutions to TED, prepares tables of negative resolutions based on credit considerations and sends negative resolutions and tables to ERD.

Step 9. Technical Economics Department

TED amends draft resolutions from a technical standpoint as instructed by the commission and puts all resolutions into final draft form. It then prepares tables by regions for all positive resolutions (applications recommended by TED and CPD) and for negative resolutions based on technical considerations and sends resolutions and tables to ERD.

The department begins preliminary contract negotiations with the applicant. At this point, technical and credit analyses are concluded.

Step 10. External Relations Department

For the remainder of the approval process, ERD ensures the timely flow of the approval process by supervising the paper flow and by arranging times and venues for meetings. The department drafts a memorandum to the council listing positive and negative recommendations and compiles a summary table of data from each application. It then sends the memorandum, summary table, and resolutions together with other applicant file material to individual council members at least two weeks before the next scheduled council

⁷The membership of the commission, a committee of Fund management, currently consists of the director, two deputy directors, head of the Credit Policy Department, head of the Legal Department, head of External Relations Department, and head of the Director's Secretariat. Head of the Technical Economics Department and experts from the department may be invited if necessary.

meeting.⁸

Step 12. Council of the Fund

The Council of the Fund is an advisory body to the Minister of Environment and is the last stage for review of resolutions before they go to the minister for action. The council reviews positive and negative resolutions, recommends approval or disapproval and may recommend changes to resolutions.⁹ It then returns the resolutions to ERD with recommendations and a draft letter of transmittal to the minister.

Step 13. External Relations Department

ERD packages the resolutions and other file material with a summary statement for presentation to the minister and presents the resolutions to the minister within one week after the council's meeting.

Step 14. Minister of Environment

The minister may approve the recommendations contained in a resolution,¹⁰ may amend the resolution, or may reverse a recommended action. If additional information is required to make a decision, the minister's office will contact ERD, which will receive guidance from the Fund director as to the appropriate Fund person(s) to supply the information. The director will meet with the minister to transmit the information. Finally, the minister's office sends signed resolutions to ERD.

Step 15. External Relations Department

With the approval process concluded, ERD finalizes and distributes documentation. The department sends negative resolutions to TED or CPD, depending on whether the reason for rejection was technical or credit related, for applicant notification. ERD then sends positive resolutions to the Legal Department and gives TED and CPD a list and photocopies of all positive resolutions.

B. Post-Approval Process

With the signing of a positive resolution by the minister, the Fund and applicant

⁸The council meets at least five times each year.

⁹The chief of ERD takes the minutes of the meeting, which are signed by the head of the council.

¹⁰ERD reports that past ministers have typically agreed with 95 percent of the council's recommendations.

negotiate the terms and conditions of the Fund's financial support. With the execution of the contract, the applicant becomes the client of the Fund until the project is completed, all debt is repaid, and the client is released from further responsibility to the Fund.

Step 16. Legal Department

When the minister has approved a resolution, two primary legal documents are executed by the Fund and applicant: a Contract for Provision of Financial Support and, if a loan is part of the transaction, a Collateral Agreement. The Legal Department (LG) drafts these documents. The department obtains file information from TED and CPD to complete the draft contract. During this time, TED must ensure that the public tenders for the supply of construction materials and services will be carried out. CPD must approve the loan disbursement schedule, called the financial calendar, determine the documentary and collateral requirements for granting a loan, and confirm the value of collateral and that collateral is good and saleable. The deputy directors responsible for LG and CPD must agree to the contents of the contract before it can be drafted.

Support may be in the form of a loan, a grant (subsidy), or both (combined support). If a loan and subsidy are combined, the contract will have sections covering each. Within 10 days of the minister's approval, LG forwards a copy of the approved resolution to the applicant. Accompanying this is the name of the person in TED who will be the client's primary contact (the father) while the Fund is supporting the project. Also included is a document, Guidelines for Entering a Contract (Annex C), providing instructions on contract procedures. LG stipulates the information and documentation necessary to conclude the contract.¹¹ Legal documentation from municipalities is minimal, but it can be extensive from private businesses, nonprofit organizations, and budgetary organizations.¹²

If a loan is part of the financial support package, LG also sends applicants the document Guidelines for Collateral (Annex C), which lists types of acceptable collateral and guarantees and the procedures for securing the loan with collateral.

¹¹ A financial calendar prepared by the applicant and approved by the Fund is an essential part of the contract. Other requirements include all or some of the following: an expert's opinion on the feasibility and viability of the project; permission from regional authorities to pursue the project; an environmental impact statement; a construction schedule; building permits; a statement of collateral and guarantees available; proof that suppliers of materials and services are being contracted through a public tender process; if network energy is required to operate the facility, a statement by the supplier of energy regarding its availability and the certainty of connecting the energy source to the facility.

¹² Budgetary organizations are holdovers from the command economic and political system and are funded from state moneys. The Fund is a budgetary organization.

¹³ To secure property as collateral for a loan, the borrower will register a collateral right with the relevant regional territorial registry in the name of the lender. The right is evidenced by an abstract

At this point, CPD and the applicant discuss suitable and available collateral to secure the loan. Collateral is usually real property, especially for municipal borrowers.¹³ Other forms of security are bank guarantees and third-party guarantees, which will usually involve a financially strong private firm (such as the owner of the applicant) or individual. CPD must perform a credit analysis for any guarantor of credit. Collateral that falls within the guidelines may be approved by CPD. The director may approve exceptions to the guidelines.

To draft the Contract for Provision of Financial Support and a collateral agreement, LD must receive the following:

- \$ Instructions from TED to proceed. TED's instructions provide a statement of the essential elements for contract preparation, including the deadline for construction and the beginning of project operations, the environmental benefits expected from the project, disbursement of funds by years, and due date for the loan.
- \$ Prepares a protocol, a standardized memorandum recommending the credit.
- \$ From the applicant, the legal documentation and information necessary for preparing the contract, and a property evaluation and proof of ownership for preparing the collateral agreement.

When the applicant agrees to the proposed terms and conditions, LG drafts the contract and the collateral agreement. The draft contract is approved by TED and the Financial Operations and Analysis Department and is signed by the director. The collateral agreement is approved by CPD and signed by the Fund director.

The applicant signs the contract (thereby becoming the client of the Fund) and returns four copies to the Legal Department together with a repayment schedule and signed collateral agreement if a loan is part of the support. The applicant will also provide proof in the form of an excerpt from the relevant regional territorial register that a collateral right has been registered in the Fund's name to secure the loan.

LG then sends the contract and collateral agreement to the Financial Operations and Analysis Department with instructions that it disburse funds to the client. At the request of the applicant, the conditions of a contract may be altered before its execution if changes fall within the technical and credit parameters established by the resolution. TED and CPD will review the request for compliance, depending on whether it concerns a technical issue or a financial and collateral one.

made available by the registry and becomes a part of documentation supporting a credit obligation. Once the obligation has been repaid, the lender will release its collateral right to the property.

Step 17. Financial Operations and Analysis Department (FOAD)

The responsibilities of the Financial Operations and Analysis Department (FOAD) include disbursing funds to clients according to contract provisions and conducting an annual financial settlement with clients to adjust overages and underages in disbursements. FOAD disburses funds to the client following the contract's financial calendar (disbursements are typically made quarterly). A grant may be disbursed immediately.

C. Project Funding, Completion, and Evaluation

The above discussion of steps 1 through 17 completes the description of the process flow of the financial support application from the time an application is received by the Fund until the first disbursement of support funds to the client. To conclude the process discussion, the following sections describe some operational aspects of disbursements of grants and loans and of loan repayments, the annual financial settlement with the client, completion of the project, and problems that sometimes occur with projects.

C1. Loan Disbursements and Repayments

Grant and loan disbursements are made in calendar quarters following the financial calendar, typically in the second month of the quarter. The Fund can adjust the amount of a quarterly disbursement to the funding need of the project at the time; FOAD coordinates closely with TED in this regard. TED may recommend disbursement adjustments, for instance a larger payment if funds are needed because construction is ahead of schedule or a smaller payment if construction is slower than expected.

The terms for loans are spelled out in the contract, and principal and interest payments are usually due by the end of each quarter. Payments are recorded with other financial transactions on a computer cassette disk the Czech National Bank sends to the Fund daily. After the quarter's end, FOAD contacts those borrowers who have not met their payment schedules.

An overdue loan payment is of special concern to the Fund when financial support includes a grant and a loan because the late payment may signal a problem that could mean the loss of the grant money. If payment is not received immediately, the borrower's name is added to the Fund's list of delinquent payers. Management uses the list to control action on late payments. Management will confer with TED to learn what is happening with the client and at the project site, and also with CPD and the Control Department if appropriate, and will decide what action to take. Because of the benefits the projects are intended to bring to the environment, the Fund leans first to lenient action. A late payment penalty of one mille per day on the outstanding loan balance is permitted under terms of most contracts but is frequently not charged. The borrower will likely be granted a grace period on loan installments and interest of up to two years (the maximum allowed) to allow time to sort out and correct project problems.

C2. Annual Financial Settlement

FOAD performs an annual financial settlement with each client. To review, the contract sets the yearly financial support that the Fund will provide a client. The client budgets for quarterly Fund disbursements based on contracts with suppliers of construction materials and services and files the financial calendar (approved by CPD) with the Fund. This budgeting exercise is carried out each year, usually in January, until the project is completed.

The financial calendar for the coming year is approved by the Fund only after the annual financial settlement has been completed and approved. FOAD verifies amounts that a project has received from the Fund, investors, banks, and other sources for the previous calendar year against invoiced costs. If the applicant is found not to have invested funds as agreed, or if other funding sources have not met their commitments, the Fund will not approve the financial calendar until the required funds the project receives. Also, amounts disbursed by the Fund that have not been used must be returned to the Fund. The Fund is careful, however, not to penalize the beneficiary by withdrawing funds that will be needed for near-term obligations and makes allowances for seasonality, delayed supplier deliveries, and other contingencies. The director may approve such exceptions and may also approve an acceleration of disbursements if the project is ahead of schedule.

C3. Project Completion and Evaluation

At the completion of a project, typically the end of a run-in and trial period for a newly constructed plant, TED evaluates the project. The client issues a statement with details of completion and performance. TED issues a Statement on Final Provision of Support noting that construction is finished, listing any problems with the facility, and declaring that financial support from the Fund has ended in accordance with the contract. TED informs the Legal Department of its evaluation results and, if a grant was part of the financial support, FOAD releases to the client the 10 percent holdback from grant disbursements. Less than the 10 percent, and possibly none of the holdback, will be released if TED finds technical problems with construction and operations of the facility. If the Fund were to detect fraud or if the client committed an important contract violation, the Fund could demand that all or part of the grant or loan be returned. A penalty of one mille per day of the amount on demand is charged until recovery is made.

When financial support has included a direct loan by the Fund, FOAD monitors client compliance with the financial terms and conditions of the contract until all loans and interest due have been paid. When all financial terms and conditions have been met (called the A financial closure of the project®) the Legal Department arranges the release of collateral to owners.

C4. Project Problems

Problems that occur with projects are usually connected with the inability to meet construction dates or the inability initially to generate sufficient cash to meet loan obligations to the Fund. When the problem is technical, TED will perform an interim analysis and report to FOAD, which may accelerate or delay a grant or loan installment, depending on the circumstances. CPD will evaluate circumstances that may involve extending a grace period for loan repayments.¹⁴

A worst-case scenario would be the inability of the applicant to complete a project for financial or other reasons. This situation, which has not yet occurred, could lead to court action, determination of how the project could be completed, and questions involving project ownership rights. In the most serious situation to date, a project did not meet the applicant's profitability expectations. For that project, the Fund granted a loan repayment grace period of several months while the applicant took steps to make the project profitable. The Fund has also acted as intermediary to introduce financial institutions that can provide additional financing or guarantees to save projects.

¹⁴The repayment of loan installments may be delayed up to two years if the Fund director approves the contract exception.

SECTION III OPERATING UNITS OF THE SFZP

A description of the composition and activities of the Fund departments and operating units is useful to understand the application and post-approval processes. In the order in which they handle application or post-approval activities, the units are the mail room (discussed in Section III), External Relations Department, Technical Economics Department, Credit Policy Department, Fund Commission, Council of the Fund, Legal Department, and Financial Operations and Analysis Department. The commission and the council, although they are not operating units of the Fund, are described here because they are integral to the flow of the application approval process. The Automated Management Systems Department provides electronic information services for the Fund throughout the application and post-approval processes and for individual projects. Also described is the Control Department, which independently audits projects under construction.

A. External Relations Department

The External Relations Department is the gateway for applications entering the analysis and approval process. ERD's responsibilities begin by ensuring that each application received has been completed and that the intended project falls within the Fund's environmental charter. The department assigns each application a unique numeric label that identifies it (and later the client and the project) through the application and post-approval processes. The department enters data from the application into the Fund's electronic data base for management, statutory reporting, and statistical analysis. Finally, ERD guides applications through the post-analysis review and approval process. The department has a staff of seven people.

B. Technical Economics Department

The Technical Economics Department is central to processing and evaluating applications, monitoring construction, and evaluating completed projects. TED has a staff of 16 people divided approximately evenly into three units. Applications are assigned to the three units according to the proposed project's geographic region. Each unit analyzes projects in the Fund's areas of primary environmental interest, air, water, and waste.

The department's functions are as follows:

- \$ Preparing technical documentation and draft ministerial resolutions for the application review and recommendation process

- \$ Evaluating the technical and economic merits of applications with recommendations to approve or not approve them
- \$ Assigning levels of priority to applications from a technical standpoint
- \$ Estimating project costs and the amount to be financed by the Fund
- \$ Preparing background material for the Legal Department's use in preparing contracts between the Fund and approved applicants
- \$ Monitoring the progress of project construction
- \$ Supervising the final evaluation of the project when completed.¹⁵

TED's analysis is technical and is not concerned with social and political issues the minister and other government leaders may consider important, e.g., the employment a project will provide in an economically depressed region. Social and political considerations may outweigh a low project priority or a negative recommendation by TED when the project reaches the minister for approval. Benefits to the environment or society, and other non-credit considerations, may also outweigh a negative recommendation by the Credit Policy Department because of doubt that a loan would be repaid, in which case the minister may authorize a grant.

The department focuses on the environmental benefit that a project will provide in three principal ways:

- \$ It uses a measurable investment to pollution ratio^a to rank projects according to the positive effect they will have on the environment. Simply stated, this is a ratio of a unit of investment to the amount of pollutant that will be reduced. For example, for each 500,000 crowns invested in a natural gas thermal plant to replace a coal-burning facility may reduce atmospheric sulfur by one ton per year (the writer's analogy and not taken from Fund experience). The objective is to achieve the lowest unit of investment per unit of pollutant reduced, and projects are ranked accordingly. The ratio analysis is based on an American system introduced several years ago. To make comparisons, the Fund relies on a unique data base of investments in environmental cleanup and protection projects in the Czech and Slovak republics and the environmental benefits that have resulted from these investments. TED compares the projected benefits of proposed projects to the

¹⁵Legally, grant disbursements are state property until the final evaluation of the completed project is concluded and the applicant is released from further financial responsibility to the Fund. Until then, 10 percent of total grant support is withheld by the Fund.

average of historical data for similar types of projects from the data base to derive a numerical score that reflects the comparative benefit of the proposed project.

- \$ Regions are numerically ranked by seriousness of pollution (the lower the number, the greater the pollution). Those regions with more pollution, such as North Bohemia, will receive attention for environmental investment sooner than others.
- \$ The absolute amount of emissions to be reduced.

A numerical score is derived from these variables; the lower the score, the greater a project's desirability. TED analyzes project costs to determine which projects should be financed and establishes the total Fund expenditure for each project. The Fund will support expenditures that can be related directly to environmental cleanup, protection, and improvement, but it will not finance working capital and certain project-related costs. For example, the Fund is willing to finance a heating unit and gas collection unit for a school but not outlays on project preparation and engineering and the purchase of a project automobile. TED also investigates project costs and will support only those that it considers reasonable.

C. Credit Policy Department

With a chief of department and four credit analysts, the Credit Policy Department analyzes the creditworthiness of an applicant in three circumstances: when the fund will make a direct loan; when the Fund will subsidize the interest rate of a commercial bank lender;¹⁶ and most recently, when the Fund will guarantee a loan made by a commercial lending institution.¹⁷

In the future, the Fund's skills at risk analysis will have to be augmented because of two important changes in its business. First, the increasingly complex projects municipalities are presenting for financing should be analyzed as standalone projects for debt-servicing capability, but CPD does not have project analysis skills and experience. Second, the guaranteeing of loans made by commercial banks and other lending institutions is expected to become a common business for the Fund, this requires a different analysis approach.

For profit and nonprofit private concerns, CPD requires the following in addition to the information contained in the application:

¹⁶The Fund may subsidize up to 10 percent of the commercial bank lender's rate. For example, with commercial rates presently between 13 and 18 percent, a full subsidy by the Fund would leave a net 3 to 8 percent interest rate to be paid by the borrower. The Fund pays interest subsidies quarterly to the borrower, not to the lender.

¹⁷The guarantee business is new to the Fund, so policies and procedures governing the business have not yet been developed.

- \$ A copy of the page from the commercial register showing that the company legally exists
- \$ A statement from the taxation authorities that the applicant is current with tax payments
- \$ A full set of financial statements with an income statement covering at least one year (two years preferably) and recent interim statements
- \$ A proposal for collateral including description and book value (collateral is usually valued by professional evaluators after application approval by the minister)
- \$ A short business plan emphasizing goals, projected profits, the market and competition, and other information relevant to the success of the project
- \$ A detailed description of the operational activities of the borrower
- \$ A schedule of outstanding loans and a list of lenders with details of any large loans

CPD's evaluation of commercial and nonprofit firms centers on a traditional analysis of liquidity, solvency, and profitability. CPD uses an American ratio analysis program that results in a numerical rating for credit strength, the Altman Z score.¹⁸ Based on this, CPD gives the applicant a high, moderate, or low ranking. Recognizing that the Z score is meaningless outside its use in ranking, the analysts concentrate on the elements of the Altman program, liquidity, solvency, and profitability, to determine creditworthiness. Investment by the client and others, the availability of bank credit, third-party guarantees, grants, and other sources of support are taken into consideration in deciding whether to extend a loan, the size of the loan, and the collateral required.

Because of time constraints and the department's small staff, CPD analysts do not visit the applicant or the project site, they obtain information by telephone, facsimile transmission, and mail. As a result, the ability of analysts to judge the technical know how and skills of the proposed project management team is limited.

In judging the creditworthiness of a municipality, CPD analyzes the municipality's budget and past and projected cash flow. It also considers the region's economic condition and outlook. Important in the analysis is whether the municipality will be borrowing for the first time. If not, the applicant's payment record for past loans is examined. CPD uses two

¹⁸A Z score of 1.8 or lower is weak. A Z score exceeding 2.0 is strong.

rules of thumb: if the ratio of total debt to total book assets is 20 percent or less, the Fund's risk is acceptable. A ratio of more than 30 percent is risky. A ratio of annual debt repayments to total income must not exceed 33 percent.¹⁹

Collateral is usually required from both private and municipal borrowers. The department requires proof of ownership, location (the property is identified on a territorial map), and after approval of the applicant's resolution by the minister, an evaluation of the property by an assessor if, in the Department's judgment, the book value and probable market value of the property differ significantly.

Because CPD receives material for analysis only after TED has finished its review (which can take weeks and sometimes months), CPD is at a disadvantage. The department often finds that it must compress the analysis time to meet deadlines for submitting recommendations to the commission and council. This problem has sometimes been exacerbated by a minister's requirement that material be sent to council members as much as three weeks, rather than the required two weeks, before the next council meeting. As a result, CPD's recommendations frequently miss not only the commission meeting but the council meetings as well and are seen only by the minister without the vetting of the two committees.

D. The Fund Commission

The commission is a committee of Fund management.²⁰ The commission reviews the recommendations of TED and CPD before draft resolutions are submitted to the council; resolves any discrepancies that it finds in text, terms, and conditions; and directs TED and CPD to make amendments to the resolutions if the commission believes them warranted. The commission also prioritizes projects to ensure that, if they are approved, the Fund will have sufficient cash resources to meet disbursements.

E. The Council of the Fund

The council, an advisory body to the Minister of Environment, reviews resolutions before the minister receives them, and recommends whether to execute them. The council

¹⁹In 1995, the Urban Institute introduced to the Fund a credit analysis model for municipalities, but the department does not use it. CPD staff recognize its value but prefer to use familiar analytical tools.

²⁰The commission's current membership consists of an executive director, two deputy directors, and the managers of the External Relations, Legal, and Control departments.

²¹Eleven members of parliament, two deputy ministers (V. Bizek and V. Novotny of the Ministry of Environment); representatives of the ministries of Finance, Industry and Trade, Health, Economy; the Union of Towns and Villages; and the Land Fund.

may also recommend amendments to resolutions. The council currently has 19 members, including ministerial representatives and members of Parliament.²¹

F. Legal Department

With a staff of three lawyers, the Legal Department's primary responsibility is to prepare the contract and collateral agreement between the Fund and the applicant. LG coordinates the preparation and receipt from the applicant and the Fund of all materials necessary to close the contract and loan collateral agreement so funds may be disbursed. The department becomes involved if contract violations occur (e.g., nonpayment of a loan) and if demands must be made on the client or court action is required. LG gives a client a written release when a loan has been repaid. Finally, the department provides legal counsel when requested to other departments and to Fund management.

G. Financial Operations and Analysis Department

The primary responsibilities of the FOAD are to disburse funds to clients following the financial calendar, monitor loan compliance to contract terms (loan and interest installments), and collect loan principal and interest payments. The department has a staff of eight people. FOAD activities are discussed in Section I.

H. Automated Management Systems Department

This department establishes, maintains, and manages the Fund's computerized data information systems with a staff of five. Section III describes the Fund's data systems.

I. Control Department

The Control Department (CD), consisting of a chief of department and three technically qualified construction experts, falls directly under the Fund director. Acting independently of other departments of the Fund, the department's staff monitors a project's construction to ensure that all aspects of it are being carried out according to the agreement with the Fund. Among the things monitored are the results of the tender for construction contractors, the contractual terms, financial disbursements and payments, whether the project has independent accounting books and records, and if engineering design and construction specifications are being met. CD has the authority to recommend any necessary corrective actions. The department will visit a construction site to observe

²¹Eleven members of parliament, two deputy ministers (V. Bizek and V. Novotny of the Ministry of Environment); representatives of the ministries of Finance, Industry and Trade, Health, Economy; the Union of Towns and Villages; and the Land Fund.

construction in progress and verify the percentage of completion with financial disbursements by the Fund, the investor, and others. TED, CPD, and FOAD instruct CD regarding which aspects of the project to focus on.

SECTION IV DATA PROCESSING AND INFORMATION SYSTEMS

A. Background

Electronic data processing (EDP), information systems, and management reporting are treated as a separate topic in this report because of the Fund's commitment to EDP and its exponential growth within the Fund in the past two years. EDP is the responsibility of the Automated Management Systems Department (AMSD).

The Fund today has 63 computers and 3 servers connected via a Novell local area network. Two years ago the Fund had only 13 non-networked computers. The basic operating system is DOS, but Window was only recently introduced. Applications on the network include Lotus Notes and FOXPRO for data base applications. All internal data, except staff compensation records, are computerized.

B. Network Problems

The computer network, which was designed for only 23 computers, is slow. It often takes 20 minutes to download a short document or load a program. Because of this, many employees do not use the network, and documents are saved to floppy disks and hand-carried to their intended recipients. Users prefer to use the programs on their PC hard drives and avoid the newer programs available on the network.

C. Data Bases and Programs

The Fund has five principal data base applications (called *Asystems* by the Fund). These consist of the applications, *podatelna* (mail), accounting; financial, and umbrella systems.

C1. The Applications System

Data from sections A through D of the *Application for Support from SFZP* are entered into the system under an eight-digit registration number, as described in Section I. This system has been in place since 1992 and has been modified annually to reflect changes in the application form. Four years of data are currently available in memory. Data can be sorted to provide virtually any array for a document. For instance, the system will supply a list of all Fund employees who have dealt with a particular support application and project over the years. Application data are provided to the financial system through the network and are also supplied to the Technical Economic Department to assist in

completing draft ministerial resolutions, which are then stored in the applications system.

C2. The *Podatelna* (Mail Room) System

The *podatelna* system is the response to the requirement that, as a public institution, the Fund must maintain an accurate record of all incoming mail. This system, in place since 1992, assigns a five-digit number to each piece of incoming correspondence. When appropriate, it also retrieves from the applications system the eight-digit application registration number and assigns it to correspondence. The *podatelna* system can sort and provide a printout by mail registration number, organization name, subject, city, date, and names of employees receiving documents.

C3. The Accounting System

The accounting system is the most dependable and error-free of the five EDP systems. Its data base uses FOXPPO, which has been modified to conform to data required by Czech law for budgetary organizations such as the Fund.

The accounting and financial systems are linked and share data as necessary to generate reports. For instance, data in the accounting system covering loan repayments is sent to the financial system, and financial system data covering expected loan repayments is sent to accounting.

Important reports generated by accounting include the Fund's annual and interim financial statements; the twice-weekly financial situation report (present and projected cash position); the annual cash budget; anticipated versus actual loan repayments; a cash sources-uses report sorted by environmental priorities and used to evaluate the Fund's budget; and cash income by month, which the commission uses in modified form to rank support applications according to projected available cash resources for disbursement to clients. A recently introduced program provides basic accounting for each active project. Data received on disk daily from the Czech National Bank feeds the individual project data base.

C4. The Management of Activities (Financial) System

The financial system, a creation of the Fund's EDP staff, is menu driven and provides details and projections on screen or in printout of virtually any financial aspect of a project. Once a financial support contract has been concluded, basic applicant and project identification data are supplied to the program automatically from the application system using the eight-digit registration number. Department staff manually enter details of the contract. Data include financial support types and amounts, the financial calendar, loan repayment schedule and interest rate, and information concerning the applicant's commercial bank account. Basic to individual project accounting is a periodic summary of changes in the financial circumstances of projects and expected versus actual loan

repayments.

The financial data base contains files for 1,600 active accounts dating from 1992. Operationally, the program is used to prepare hard copy daily payment orders sent to the Czech National Bank for grant and loan disbursements,²² to notify clients of loan installments due, to track past-due installments, and for other operations that involve money flow. The program generates numerous daily, weekly, and monthly reports for Fund management. Among these are summaries of support types (grant, loan, guarantee, interest subsidy), project types, and the nature of environmental protection or improvement (e.g., air, water, waste) by geographic region. One report highlights contract violations and is used to stop disbursements to clients. To assist with cash planning, the system tracks loan installments and interest to be received by the Fund as well as the planned disbursements of grants and loans. Financial system data are transferred directly to the accounting system to update the Fund's financial statements. For example, a review of total financing by contract number and geographic region is used by the accounting system for the quarterly update of the Fund's balance sheet. Information on the system concerning disbursements and other project payments is made available to clients.

The Fund does not have a loan amortization program and the financial system does not calculate interest due on loans. The Fund does have an interest calculation program provided by the Czech National Bank, but integrating it into the financial system has been difficult. Prior consultancies have recommended that a loan amortization program similar to those used by U.S. banks be introduced, but interest due continues to be calculated by borrowers from instructions contained in the financial support contract and from the date funds are received in the client's bank account. The Fund is considering moving to a system of automatic withdrawal of interest from client's bank accounts. Although the Fund would like such a system in place by January 1997, it seems essential that the Fund first have in place a program that can accurately calculate interest due.

C5. The Umbrella System

The umbrella system, which uses Lotus Notes, is new and still developing. It is intended to merge and manipulate data drawn from the other four data bases. The system began operations in September 1996 and so far is drawing data from the applications and *podatelna* systems. The target is to have the system fully operational by the end of 1996.

The umbrella system is designed to manipulate 80 data fields into virtually any analytical table or management tool that might be useful. Besides providing data on Fund

²²CNB requires signed payment orders to make disbursements, but it supplies the Fund data concerning loan payments and other fund receipts on disks.

operations, the system will summarize data on all active projects. One advantage will be to provide people in the Technical Economic Department and the Control Department with the information needed: contractual, financial, terms of ministerial resolution, environmental benefits: from a single source in preparation for visiting clients and project sites. The system also will provide the location and status of applications for quarterly management reporting (see below).

C6. The Tracking System

Fund management recognizes the value of periodic reporting on the location and status of support applications, resolutions, contracts, and projects under way using electronically generated data. AMSD has developed a subprogram within the umbrella system to provide the status of an application at 12 locations beginning with entry to the approval process and ending at the Archives Department when the project has been completed. Annex D lists the reporting stations, the two-letter code that identifies the station and status of the activity at that point, and the names of those persons authorized to enter and change data in the data bank.

The system is in its infancy, but it could be the foundation for a more detailed and comprehensive system of frequent reporting. For instance, the system could indicate the value in crowns of applications in process at any position, the length of the queue waiting to be processed, and any number of other variables, with data drawn mostly from the applications system and updated along the way as modifications occurred. At present, the intent is to develop quarterly reports with data being updated monthly except for material poised for council review sessions, which occur every two months. AMSD management considers the lack of time sensitivity to the application process flow as justified because paper moves slowly between stations, as a rule changing only slightly every few days. The tracking system is for internal Fund use and not for public use, although it could assist Fund employees in replying to inquiries from applicants and others.

A system is only as good as the utility it provides its users and the quality and frequency of the data it receives to share with users. CPD, which is critical to the process of application approval, provides no input to the system because it is not synchronized with the approval process. The status of the application it is analyzing is often known only after the meeting of the council. The Legal Department also may provide little or no input concerning the status of contract preparation.

SECTION V FINDINGS

The findings discussed below resulted from information obtained during interviews with Fund employees concerning the application and post-application approval processes.

A. The Application Approval Process

The design of the process that an application follows to approval by the minister is logical with no duplication of effort by Fund operating units. In practice, however, bottlenecks disrupt and delay the process flow. The problem is due to limited staffing levels, time constraints, a linear decision-making and approval process, and lack of coordination between TED and CPD. Specifically, a member of TED is assigned as a relationship officer (called the *father* of the project) to manage the technical aspects of the analysis and implementation of the project. But TED does not work effectively with CPD to leverage or coordinate that contact to analyze, evaluate, and monitor the financial component of the relationship. Further, CPD receives material for analysis only after TED has finished its technical review. This can take weeks, sometimes months, leaving CPD with short deadlines for submitting credit recommendations to the commission and council. This problem was exacerbated by the previous minister, who required that material be prepared early for council members without adequate or complete financial analysis by CPD. As a result, CPD's recommendations are frequently prepared too late for review at meetings of commission or the council before being acted on by the minister.

Because of staffing and time limitations, CPD analysts do not visit the applicant or the project site and obtain information for analysis by telephone, facsimile transmission, and mail. As a result, analysts' ability to judge the know how, skills, and experience of the project management team is limited. By the time material for analysis reaches CPD from TED it is stale and must be updated by CPD, which adds to the time required for credit analysis. Communication between TED and CPD is limited to written memoranda. Better, more personal interdepartmental communications would hasten the analysis and recommendation process.

Proposed solution. Increase the number of CPD personnel. CPD may be understaffed for the volume of applications it must analyze within the time available. Introduce parallel processing to shorten the analysis time. It would be time-effective if TED and CPD worked on the same application simultaneously. For example, as soon as TED has established an application's technical merit, it could provide CPD with details of the application and an approximate financing need. This would allow CPD to begin a preliminary analysis while TED continues with its full analysis. The procedure would reduce CPD's analysis time by days and perhaps by weeks. Assign a CPD credit analyst to TED

full-time to coordinate information and the recommendation process between departments. This suggestion, by a senior TED employee, has merit and should be studied in light of anticipated loan and guarantee volume. Additionally, the Fund Council meeting dates should be fixed for the year to permit the Fund, particularly the CPD, to anticipate deadlines for submitting applications for review. Give CPD a set deadline before council meetings by which date applications for analysis must be received or be pushed to the next council meeting.

B. The Post-Approval Process and Activities

The post-approval process consists of writing contracts; disbursing grants and loans; receiving loan principal and interest payments; and constructing, completing, and evaluating projects. As with the application approval process, the procedures to manage these activities are logically designed, but labor and time constraints cause deviations from design. Three such deviations are described in the following paragraphs.

TED is responsible for monitoring construction progress until project completion. Yet, staff size and daily work pressures severely limit the number of client visits and site inspections TED can undertake. As a result, the progress of project construction is not as closely monitored as would be desirable.

FOAD continues to make quarterly project disbursements based on the client-prepared financial calendar. More or less funding may be required, depending on circumstances of construction and whether other financial contributors are meeting their obligations. FOAD, based on TED's assessment of construction, should be able to adjust disbursements to project needs, but as a practical matter this is not easily or frequently done in view of TED's inability to monitor projects closely.

The Fund, because of labor and time constraints, does not regularly monitor the financial conditions of borrowing clients. Therefore, the first indication that a client may be having financial or other problems is an overdue loan principal or interest payment. Clients, however, are not required to make loan payments until the end of a designated calendar quarter. FOAD learns that a client is overdue in making a payment only during the succeeding month. During the three- or four-month period it takes for the borrowing client's difficulties to surface, the Fund could have taken corrective action if the client's problems had been uncovered by routine inspection visits.

C. Application Tracking

The Fund does not have a formal system to help applicants track the location and status of their applications. To trace an application, applicants must contact someone at the Office of the Fund. In practice, employees of the External Relations Department, Technical Economics Department, or Credit Policy Department are in touch with each applicant to receive and supply information from the time the application enters the Office of the Fund.

As would be expected, the number of telephone inquiries increases significantly around scheduled meetings of the council and the minister. While the process works, it is often slow in producing an answer for the applicant and is inefficient for the Fund because responding to inquiries draws the attention of employees away from their work.

Proposed solution. The ideal solution would be a computerized tracking system that could quickly locate and provide the status of an application at any point in the approval process. The umbrella system described in Section III includes a program designed to track and provide application status at 12 locations in the pre- and post-approval processes through final client settlement. Although designed to generate quarterly management reports and updated only monthly, the system could generate weekly or even daily reports if programmed to do so. Such frequent reporting is unrealistic at present, however, because most stations lack a staff person to provide data regularly. Furthermore, tracking information would have to be centralized with one station dedicated full time to dealing with applicants, clients, and the public, which would be a luxury at this stage of the Fund's development and given its budgetary caution.

D. Publicizing the Rules of the Fund

A buildup of unqualified and marginal applications at the beginning of the approval process slows the entry and processing of legitimate and desirable proposals. The Fund currently receives an estimated 10 times more applications for financial support than it has people and facilities to process. Frequently, these applications do not meet the Fund's criteria for assistance and must be returned to applicants with appropriate explanations. Applicants have proved successful in lobbying members of parliament and the minister's office to have applications reviewed by the Fund when at best their proposals are marginally qualified for consideration. Based on perceptions of the Fund's environmental objectives, an applicant may adequately explain the technical merits of a proposal in the application only to fail in providing adequate financial information to obtain a loan. As a result, the application is returned and considerable ill will results with the applicant.

Proposed solution. The Fund could benefit from better communications by the ministry and the Fund with user markets and with local and national leaders. Such communications should seek to explain precisely the purpose of the Fund, detail the conditions and requirements for applying for financial support, and emphasize that the conditions and requirements will be enforced.

E. Electronic Data Processing, Information Systems, Local Area Network

The Fund is committed to employing electronic data processing to all aspects of its operation, including application processing. Some elements of operations, such as the accounting system (Section III) are established and functioning well. An umbrella system that will introduce Microsoft Windows, a new Czech language text editor, and other very recent programs, will tie all existing systems together for quick and easy access to

programs and data.

The Fund has set a January 1, 1997, deadline for a fully operational umbrella system. This will replace many existing programs, such as the antique Czech language text editor T602, with Microsoft Windows-based programs that will affect user productivity. The Fund is experiencing some development problems with the umbrella system. For example, some programs in the accounting and financial systems are proving incompatible under the umbrella system. The system user, the human element, however, is the focus of concern with EDP operations. Some operating units are not using the network at all to enter or retrieve data, and some users are resisting use of both the network and the newly introduced programs. The reasons are both operational and behavioral.

Operational reasons. With 63 personal computers connected to a network designed in 1992 for 23 computers, retrieving and moving data from station to station is slow and programs take a long time (20 minutes in some cases) to download from servers. Pressed for time, many users find it preferable to bypass the network and hand-deliver material to recipients on diskettes. They also save time by using programs to which they have immediate access on their PCs rather than using network programs.

Much of the Fund's data, because it is not generated and stored on line, must be manually entered. This causes system bottlenecks and delays in data entry. Data updates are not time-stamped, so users are uncertain whether data is current or not.

Behavioral reasons. Many users are insufficiently computer literate and unable to learn and use new programs quickly. They generally are more comfortable with existing, familiar programs, such as the T602 text editor, that yield immediate work results. Connected to this, software changes have been frequent and users have found it difficult to absorb and use the new software material. The rapidly accelerating workload of the past two years has interfered with Fund staff attendance at training workshops and with the attention of those who did attend training sessions. Conjecturally, the times allotted for training and the presentation of training material may not have been satisfactory for the user audience.

ANNEX A
APPLICATION REVIEW

The State Fund for the Environment Project Number: _____

**EVALUATION
OF LOAN APPLICANT CREDIT RELIABILITY**

APPLICANT
(investor) _____

PROJECT _____

TIME OF CONSTRUCTION (month, year) _____	FROM	TO _____
---	------	----------

LOAN (in '000 K..)	TOTAL	of which	1994	1995	1996	1997	1998

% of the base for setting support _____

Interest rate in % _____

Loan maturity _____

Grace period

Beginning of payments

Quarterly payments in the amount _____ in '000 K...

	APPLICANT	
CONCLUSION:	IS	IS NOT
Level of loan risk:		qualified to receive a loan

B. EVALUATION OF APPLICANT LEGAL STATUS

Legal status: _____

Excerpt from a registry court

Statutory body

Proprietary relations of applicant

Tax discipline

(evidence of last tax return)

C. COMPREHENSIVE EVALUATION OF ECONOMIC SITUATION

1. Main points of the business plan, link of current development of revenues and costs with the business plan

2. Real terms of profit development

3. Own financial sources for the project

D. APPLICANT'S ABILITY TO MEET OBLIGATIONS

(use table AReview of development and disbursement of finance@)

'000 K...	1995	1996	1997	1998	1999
Profit available					
Depreciation					
Repayment of credits					
Other					
Balance of resources					

E. EVALUATION OF CASH FLOW AND FINANCIAL INDICATORS

(use table ACash flow@)

'000 K...	199.	199.	199.	..		
Total income (B)						
Total cost (C)						
Cash of current year (B-C)						
Cash in the end of year						
Payments required from the Fund						
Calculated surplus						

Last payment:

DOCUMENTS SUBMITTED BY APPLICANT

business plan & comments
balance sheet
profit/loss account
municipal budget
proposed collateral, excerpt from territorial register
evaluation of collateral, map plot
excerpt from trade register, tax discipline

PROPOSED COLLATERAL

Preliminary evaluation:

e.g., % to loan

In Prague:

Head of Credit Policy

Prepared by:

Dept.

ANNEX B

APPLICATION FOR SUPPORT FROM SFZP

The SFZP application requests six broad categories of information.

Section A: Name, address, and other details identifying the applicant, the name of the legal representative who will negotiate with the Fund on behalf of the applicant, and information concerning the applicant's bank account.

Section B: Describes the location and the type of area (e.g., industrial area, national park) in which the proposed project will be constructed.

Section C: Describes how and the degree to which the proposed project will improve specific environmental sectors (e.g., water, air, waste disposal).

Section D: Provides a schedule for implementing the project and sources, types, and amounts of required financial support, including guarantees and subsidized interest.

Section E: Provides highlights of the applicant's present and projected financial condition emphasizing period-ending cash resources available. The section is divided into private companies and municipalities.

Section F: Informs the applicant that additional documents may be required to complete the application. For a private (nongovernmental) organization, documents will include a copy of the trade registration; building permits; financial results for the previous fiscal year and the most recent interim financial statement nearest to the date of the application; a statement by the district authority regarding the environmental impact of the proposed project and accompanied by the district's recommendation for approval; a statement from the Urban Development Office, for information only, concerning any conflicts that might affect the project or that it might cause, for instance, if a highway is planned to cross the project site; and collateral: when physical property is proposed by the applicant as collateral, proof of ownership (Office of Property Registration) and a description of any mortgage attached to the property must be included with the application. Typically, a collateral-to-loan value of 150 percent is required except in the case of flats (apartment dwellings), for which more than 150 percent is required because of the difficulty in selling them. Municipalities typically offer blocks of flats as collateral security.

APPLICATION FOR SUPPORT FROM SFĎP „ R

Appendix 3 of the Directive of the Ministry of the Environment of the Czech Republic on providing financial means from SFĎP „ R (in case of the Air Protection Program it is used as Form 2).

**State Fund for the Environment
of the Czech Republic**
K Moravín• 7
190 00 Praha 9

A. IDENTIFICATION DATA OF THE APPLICANT (REALIZATOR OF THE PROJECT, INVESTOR)

1. Trade name of the subject

2. Identification number (I., O)

3. Type of subject

State owned enterprise
Joint stock company
Limited liability company
Cooperative
Private entrepreneur
Municipality, town
Others
Private person

4. Location of subject

- a) street, number
- b) postal code
- c) city
- d) telephone - area code, telephone number, extension
- d) fax - area code, fax number

5. Statutory representative

- a) surname
- b) first name
- c) title
- d) function
- e) telephone - area code, telephone number, extension

6. Person authorized to deal with the Fund

- a) surname

- b) first name
- c) title
- d) function
- e) telephone - area code, telephone number, extension

7. *Subject of activities (brief description of existing production, services or other activities)*

8. *Name and location of bank the applicant cooperates most with*

- a) name of branch
- b) location of branch
- c) number of account/numeral code

B. PROPOSED PROJECT THAT WILL BRING ENVIRONMENTAL BENEFIT

- a) name (identical with the name for which territorial or construction permit has been or will be issued)
- b) location
- c) district
- d) postal code
- e) type of location
 - Industrial zone
 - Residential zone
 - Spa resort
 - National parks
 - Protected water areas
 - Other protected areas
 - Protected landscape parks and reservations
 - Others

C. DATA ON PROPOSED SOLUTION AND ITS BENEFIT

1. *Information on proposed solution (on a special appendix)*

- a) evaluation of current situation of polluting source (conditions of technical equipment in production)
- b) brief technical description of proposed solution
- c) technological level of proposed solution in comparison to world trends
- d) other ecological links (positive and negative)
- e) other information (way and rang of application, use of ecological products, technologies, etc.)

2. *Benefits of proposed solution*

I. *Water protection*

Indicators of pollution (t/year)	Condition	Total reduction
----------------------------------	-----------	-----------------

	Before project realization	After project realization	
Dissolved substances			
Dissolved substances			
BSK ₅			
CHSK			
Harmful substances of industrial waters (name the main substances)			

Total length of proposed drainage.....m

Incinerator capacity(in number of inhabitants)

II. Air protection

Indicators of pollution (t/year)	Condition		Total reduction
	Before project realization	After project realization	
Dust			
Fly ash			
SO ₂			
NO _x			
CxHy			
CO			
Other reduced harmful substances, namely:			

Height of chimney.....m

III. Land protection

a) Benefits

Indicators of pollution of reduced or decontaminated harmful substances, namely	Condition			
	Before project realization		After project realization	
	T/year	Area (ha)	T/year	Area (ha)

b) Land Usage

Structure of Land	Permanent usage (ha)	Temporary usage (ha)

Agricultural Land of which:		
Arable Land		
Green Fields		
Other		
Non-agricultural land:		
Forests		
Water areas		
Total:		

IV. Waste disposal

Indicators:	Waste					
	Communal		Industrial		Hospital	
	Before	After	Before	After	Before	After
Waste - toxic level						
- content of heavy metals (%)						
Total production of waste t/year (of which):						
a) used						
b) incinerated						
- using energy						
- not using energy						
c) deposited						
- in administered dump						
- in non-administered dump						

3. Other benefits

Use special appendix to state benefits which cannot be given in Table C.I. - IV. and which might be a subject of support in accordance with article 2 Directive of the Ministry of the Environment of the Czech Republic on providing financial means from SFOP „ R.

D. PROPOSED MEASURE REALIZATION AND FINANCING

1. Time schedule (year, month)

- Construction permit - date, reference number
- Launch of construction - year, month
- Construction finished - year month
- Permanent operation - year, month

2. *Way of realization of proposed measure (suppliers include imported license purchase, etc.)*

3. *Proposed financing of the construction and requirement of type and amount of support from SFöP*

a) returnable and non-returnable subsidies - in % related to the realization costs for all items

		Total		in year		
		'000 K...	%	199.	199.	
1	Total costs					
2	- Own investment					
	- Bank or other credit					
3	- Amount of support from SFöP (of which):					
4	-Returnable subsidy					
5	- Non-returnable subsidy					

b) loan guarantee (e.g. bank loan, etc.)

		Total		in year		
		'000 K...	%	199.	199.	
1	Amount of loan					
2	Required guarantee from SFöP					

c) financial contribution for interest rate payment

		Total		in year		
		'000 K...	%	199.	199.	
1	Estimated loan repayments					
2	Required guarantee from SFZP					

E. CURRENT AND PROSPECTIVE FINANCIAL SITUATION OF THE APPLICANT

1. *Review of development and disbursement of finance (in '000 K..) (this part does not apply to budget organizations, municipalities and cities - these bodies fill in tables on page 5)*

	Data start one year prior to start up of the project throughout the final year (year of paid up loan provided for the project)	YEAR						
		199.	199.	199.				
1	Revenues							

2	Cost							
3	Profit (1-2)							
4	Tax obligation							
5	Obligatory disbursement to funds							
6	Profit available (3-4-5)							
7	Depreciation							
8	Resources total (6+7)							
9	Repayment of credits							
10	Balance of resources (8-9)							

2. Cash Flow (in '000 K..) (this part does not apply to budget organizations, municipalities and cities - these bodies fill in tables on page 5)

	Data start one year prior to start up of the project throughout the final year (year of paid up loan provided for the project)	YEAR						
		199.	199.	199.				
A	INITIAL STATE OF MEANS OF PAYMENT							
1	Profit/Loss for the accounting period (+)							
2	Tax depreciation of tangible and intangible investments (+)							
3	New short-term credits							
4	New short-term and medium-term credits (+)							
5	Balance price of sold tangible and intangible assets (+)							
6	Sold securities (+)							
7	Other incomes (+)							
8	Change in inventory (P-U+)							
9	Change in receivables (P-U+)							
10	Change in payables (P+U-)							
11	Change in cost (P+U-)							
12	Change in equity (P+U-)							
13	Change in balance of VAT (+-)							
14	Change in accrued income (+-)							
B	INCOME TOTAL (1-14)							
15	Purchase of tangible and intangible investment assets (-)							
16	Purchase of securities (-)							
17	Capitalization of property included into incomes (-)							
18	Repayments of short-term credits (-)							

19	Repayments of medium-term and long-term credits (-)							
20	Dividends and shares (-)							
21	Other payments and expenditures (-)							
C	PAYMENTS AND EXPENDITURES TOTAL (15-21)							
D	CASH OF CURRENT YEAR (B-C)							
E	CASH IN THE END OF YEAR (A+D)							

F. NECESSARY DOCUMENTATION which is submitted to SFOP as appendices to the application are specified:

- in case of an application for support within the Air Protection Program of the Czech Republic in part D, article II, par. 3 of Directive of the Ministry of the Environment of the Czech Republic on providing financial means from the State Fund for the Environment within the Air Protection Program of the Czech Republic,
- in case on an application within the Nature Protection Program in Appendix 5, part C, article II of Directive of the Ministry of the Environment of the Czech Republic on providing financial means from the State Fund for the Environment of the Czech Republic,
- in other cases in Appendix 3a of Directive of the Ministry of the Environment of the Czech Republic on providing financial means from the State Fund for the Environment of the Czech Republic.

For budget organizations, municipalities and cities only

1. Review of development and disbursement of finance

	Data start one year prior to start up of the project throughout the final year (year of paid up loan provided for the project)	YEAR						
		199.	199.	199.				
1	Total revenues (+)							
2	Total costs (-)							
3	Revenues and costs difference (1-2)							
4	Transfer (disbursement), account of purpose means (+-)							
5	Obligatory disbursement to funds (-)							
6	Surplus (3+-4-5)							
7	Resources total (6)							
8	Repayment of credits (-)							
9	Balance of resources (7-8)							

2. Cash Flow

	Data start one year prior to start up of the project throughout the final year (year of paid up loan provided for the project)	YEAR						
		199.	199.	199.				
A	INITIAL STATE OF MEANS OF PAYMENT							
1	Profit/Loss for the accounting period							
2	New credits (less than 1 year) (+)							
3	New credits (1+ years) (+)							
4	Sold securities (+)							
5	Other incomes (+) - specify in note below							
6	Change in receivables (P-U+)							
7	Change in payables (P+U-)							
8	Change in others (stocks, equity)							
B	INCOME TOTAL (1-8)							
9	Purchase of investment assets (-)							
10	Purchase of securities (-)							
11	Capitalization of property							
12	Repayments of short-term credits (less than 1 year) (-)							
13	Repayments of long-term credits (1+ years) (-)							
14	Other payments and expenditures (-)							
C	PAYMENTS AND EXPENDITURES TOTAL (15-21)							
D	CASH OF CURRENT YEAR (B-C)							
E	CASH IN THE END OF YEAR (A+D)							

ANNEX C

COLLATERAL CONDITIONS FOR SFZP LOANS

1. Real estate

Acceptance of real estate as collateral requires the following documentation:

- a) Excerpt from territorial register - original or certified copy. The excerpt should be no more than six months old. The owner must be clearly identified.
- b) Detail from a territorial map (same as above).
- c) A price estimate done by an independent expert.
- d) Photographs of the collateral (not necessary when it is a field, forest, etc.).
- e) Approval of representatives of the specific municipality.

The collateral is required to be more valuable than the loan itself. The Fund has its own evaluation criteria based on the type of collateral offered (blocks of flats, entrepreneurial buildings, production spaces, fields, forests, agricultural areas, farms).

2. Bank guarantee

This is considered the best kind of collateral. A written statement from the bank is needed. The Fund (Credit Policy Department and economical deputy director) approves whether the chosen bank is suitable.

3. Collateral provided by a third party

Profitable business or a municipality. A standard collateral agreement must be signed.

4. Shares

Shares can be taken as a collateral if they are traded on organized markets. Total amount of the collateral has to be 50 percent more than the amount of the loan.

5. Dual collateral

Subject to the director's approval, a combination of a real estate and a bill of exchange can be accepted as collateral.

Guidelines for Entering Contracts for Support

The applicant should verify the accuracy of the following data:

- \$ Name of the applicant
- \$ Address
- \$ Identification number
- \$ Number of bank account
- \$ Name of person authorized for signing the contract

The following data must be included in the contract:

- \$ Construction deadlines
- \$ Disbursement of support into years
- \$ Schedule of repayments (quarterly)

The document specifies who is usually the suitable person for signing the contract for business associations, state companies, cooperatives, foundations, associations, budgetary organizations, villages, entrepreneurs, and farmers.

The guidelines include information on contact persons at the Fund, information on disbursement of the funds (immediately after the contract is signed), and a summary of the collateral conditions.

ANNEX D
UMBRELLA SYSTEM TRACKING STATIONS

Key	Description		Authorized employees
F1	Completed application	ZU	Labskv, Zelenka, Jelínková
F2	Returned application	VR	Chytil, Kuňel, Rozum, Āáková, Vejvoda, Zajíc, Vostrv, Krej..ová, Cabrnoch, Pometlo, Rykl, Vydrová, Cablk, Koudeláková, Klánová, Polickv, Halík
F3	Abolished by the applicant	ZZ	Chytil, Kuňel, Rozum, Āáková, Vejvoda, Zajíc, Vostrv, Krej..ová, Cabrnoch, Pometlo, Rykl, Vydrová, Cablk, Koudeláková, Klánová, Polickv, Halík
F4	Positive resolution	RK	Labskv, Zelenka, Jelínková
F5	Negative resolution	RZ	Labskv, Zelenka, Jelínková
F6	Abandoned resolution	OR	Chytil, Kuňel, Rozum, Āáková, Vejvoda, Zajíc, Vostrv, Krej..ová, Cabrnoch, Pometlo, Rykl, Vydrová, Cablk, Koudeláková, Klánová, Polickv, Halík
F7	Contract concluded	SM	Kvapil, Lauferová, Vvmolová
F8	Contract abandoned	OS	Kvapil, Lauferová, Vvmolová
F9	Final settlement under process	ZP	Chytil, Kuňel, Rozum, Āáková, Vejvoda, Zajíc, Vostrv, Krej..ová, Cabrnoch, Pometlo, Rykl, Vydrová, Cablk, Koudeláková, Klánová, Polickv, Halík
F10	Final settlement completed	ZV	Chytil, Kuňel, Rozum, Āáková, Vejvoda, Zajíc, Vostrv, Krej..ová, Cabrnoch, Pometlo, Rykl, Vydrová, Cablk, Koudeláková, Klánová, Polickv, Halík
F11	Final settlement not received	ZM	Chytil, Kuňel, Rozum, Āáková, Vejvoda, Zajíc, Vostrv, Krej..ová, Cabrnoch, Pometlo, Rykl, Vydrová, Cablk, Koudeláková, Klánová, Polickv, Halík
F12	Filed	AR	Rybi..ka, Holasová, Beránková, Strnadová

